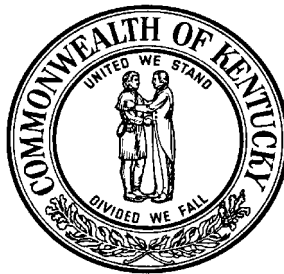


**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

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TELEPHONE (502) 564-5841
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWSLEY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2001**

The Auditor of Public Accounts has completed the Owsley County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$67,663 from the prior fiscal year, resulting in a cash surplus of \$101,074 as of June 30, 2001. Revenues decreased by \$255,661 from the prior year and disbursements decreased by \$386,640.

Report Comments:

- The County Should Earn Interest On Applicable Checking Accounts
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
- The County Should Maintain Adequate Inventory Records
- The County's Quarterly Financial Statements Should Be Prepared In Numerical Sequence By Account Number And Account Numbers Should Not Be Duplicated
- Lacks Adequate Segregation Of Duties

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Jimmie Herald, Owsley County Judge/Executive

Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Owsley County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Owsley County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Owsley County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Owsley County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmie Herald, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2002, on our consideration of Owsley County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Owsley County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Should Earn Interest On Applicable Checking Accounts
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
- The County Should Maintain Adequate Inventory Records
- The County's Quarterly Financial Statements Should Be Prepared In Numerical Sequence By Account Number And Account Numbers Should Not Be Duplicated
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 11, 2002

OWSLEY COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Jimmie W. Herald	County Judge/Executive
Bill Hall	Magistrate
Jesse Bishop, Jr.	Magistrate
Bobby Smith	Magistrate

Other Elected Officials:

Wade Rasner	County Attorney
Hubert Shouse	Jailer
Sid Gabbard	County Clerk
Mike Mayes	Circuit Court Clerk
Paul Short	Sheriff
Monica Barnett	Property Valuation Administrator
Eddie Issacs	Coroner

Appointed Personnel:

Marvin McIntosh	County Treasurer
Wanda Holbrook	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

OWSLEY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash \$ 34,601

Road and Bridge Fund:

Cash 10,610

Jail Fund:

Cash 3,274

Local Government Economic Assistance Fund:

Cash 50,348

Retirement Account - Cash

90 \$ 98,923

Special Revenue Fund Type

Forestry Fund:

Cash \$ 474

Ambulance Fund:

Cash 1,767 2,241

Total Assets and Other Resources

\$ 101,164

Liabilities and Fund Balances

Liabilities

General Fund Type

Retirement Account

\$ 90

Fund Balances

Reserved:

Special Revenue Fund Type

Forestry Fund

474

The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
June 30, 2001
(Continued)

Liabilities and Fund Balances (Continued)

Fund Balances (Continued)

Unreserved:

General Fund Type

General Fund	\$	34,601
Road and Bridge Fund		10,610
Jail Fund		3,274
Local Government Economic Assistance Fund		50,348

Special Revenue Fund Type

Ambulance Fund	<u>1,767</u>	<u>\$ 100,600</u>
Total Liabilities and Fund Balances		<u><u>\$ 101,164</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

OWSLEY COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,441,256	\$ 417,792	\$ 699,170	\$ 35,830
Other Financing Sources:				
Transfers In	<u>248,492</u>	<u>147,235</u>	<u>9,000</u>	<u>92,257</u>
Total Cash Receipts	<u>\$ 1,689,748</u>	<u>\$ 565,027</u>	<u>\$ 708,170</u>	<u>\$ 128,087</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,373,593	\$ 460,383	\$ 554,386	\$ 125,886
Other Financing Uses:				
Transfers Out	<u>248,492</u>	<u>76,000</u>	<u>147,235</u>	
Total Cash Disbursements	<u>\$ 1,622,085</u>	<u>\$ 536,383</u>	<u>\$ 701,621</u>	<u>\$ 125,886</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 67,663	\$ 28,644	\$ 6,549	\$ 2,201
Cash Balance - July 1, 2000	<u>33,411</u>	<u>5,957</u>	<u>4,061</u>	<u>1,073</u>
Cash Balance - June 30, 2001	<u><u>\$ 101,074</u></u>	<u><u>\$ 34,601</u></u>	<u><u>\$ 10,610</u></u>	<u><u>\$ 3,274</u></u>

The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2001
 (Continued)

General Fund Type		Special Revenue Fund Type		
Local Government Economic Assistance Fund		Forestry Fund	Local Government Economic Development Fund	Ambulance Fund
\$	80,548	\$ 1,831	\$ 167,231	\$ 38,854
\$	80,548	\$ 1,831	\$ 167,231	\$ 38,854
\$	24,737	\$ 1,866	\$ 167,231	\$ 39,104
	25,257			
\$	49,994	\$ 1,866	\$ 167,231	\$ 39,104
\$	30,554	\$ (35)	\$	\$ (250)
	19,794	509		2,017
\$	50,348	\$ 474	\$	\$ 1,767

The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Owsley County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Owsley County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Owsley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Owsley County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Owsley County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund (LGEA).

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Owsley County Special Revenue Fund Type includes the following county funds: Forestry Fund, Local Government Economic Development Fund, and the Ambulance Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Owsley County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Joint Venture

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility.

The Owsley County Fiscal Court has entered into a joint venture with Wolfe and Lee counties. They have formed the Three Forks Public Properties Corporation, a legally separate organization, in order to sell bonds to build the Three Forks Regional Jail. The Owsley County Fiscal Court does not appoint a voting majority of the 10 board members. Lee County appoints 4 of the 10 members. Wolfe and Owsley counties appoint 3 members each. Each county will be equally liable if the Three Forks Regional Jail doesn't meet the bond payment requirements. Each of the three participants will have joint control in which they have an ongoing financial interest and ongoing financial responsibility. Each county has also guaranteed the Three Forks Regional Jail payment for 15 prisoners per county at the rate of \$25 a day even if occupancy is at a lower amount. The Three Forks Public Properties Corporation issued \$6,295,000 of First Mortgage Revenue Bonds for the construction of the regional jail.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Loan Receivable

A. 1997 Ambulance

The Fiscal Court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement stated that the Fiscal Court would purchase an ambulance and would finance it on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the County for the monthly payments. The County paid off the loan on the ambulance in a previous year. However, Allen's Ambulance Service did not reimburse the County for all of the payments as was required under the terms of the agreement. As of June 30, 2001, Allen's Ambulance Service owed the County \$2,422 in unpaid loan payments. Allen's Ambulance Service has subsequently paid off this obligation.

B. 2000 Ambulance

On March 2, 2000, the Fiscal Court entered into a second agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement stated that the Fiscal Court would purchase an ambulance and would finance it on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the County for the monthly payments. As of June 30, 2001, Allen's Ambulance Service owed the County \$30,310 in unpaid loan principal payments.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

Description	Purchase Date	Maturity Date	Interest Rate	Balance June 30, 2001
Ambulance (Note 6)	November 4, 1998	November 20, 2005	5.10%	\$ 31,200
Ambulance (Note 4B)	March 2, 2000	December 1, 2005	5.75%	\$ 30,310
Voting Machines	March 2, 2000	December 1, 2005	5.75%	\$ 39,690

Note 6. Contingent Liability

On November 4, 1998, the County entered into an agreement with Fifth Third Bank Corporate Trust to purchase a third ambulance that is used by Allen's Ambulance Service. Allen's Ambulance Service is making all payments for the ambulance directly to Fifth Third Bank. In the event that Allen's Ambulance Service would fail to make the scheduled payment, the County would be responsible for the liability. As of June 30, 2001, Allen's Ambulance Service is in compliance with all scheduled payments to Fifth Third Bank. As of June 30, 2001, the outstanding liability balance is \$31,200.

Note 7. Insurance

For the fiscal year ended June 30, 2001, Owsley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

OWSLEY COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 474,511	\$ 417,792	\$ (56,719)
Road and Bridge Fund	666,180	699,170	32,990
Jail Fund	137,755	35,830	(101,925)
Local Government Economic Assistance Fund	27,943	80,548	52,605
<u>Special Revenue Fund Type</u>			
Forestry Fund	2,240	1,831	(409)
Local Government Economic Development Fund	680,000	167,231	(512,769)
Ambulance Fund	60,000	38,854	(21,146)
Totals	<u>\$ 2,048,629</u>	<u>\$ 1,441,256</u>	<u>\$ (607,373)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 2,048,629
Add: Budgeted Prior Year Surplus			<u>10,017</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 2,058,646</u>

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SCHEDULE OF OPERATING REVENUE

OWSLEY COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Revenue Categories</u>	<u>GOVERNMENTAL FUND TYPE</u>		
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type
Taxes	\$ 268,642	\$ 266,843	\$ 1,799
In Lieu Tax Payments	12,998	12,998	
Intergovernmental Revenues	1,092,445	920,599	171,846
Charges for Services	17,890	17,890	
Miscellaneous Revenues	42,597	8,358	34,239
Interest Earned	6,684	6,652	32
Total Operating Revenue	<u>\$ 1,441,256</u>	<u>\$ 1,233,340</u>	<u>\$ 207,916</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

OWSLEY COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

GENERAL FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 321,043	\$ 378,499	\$ (57,456)
Protection to Persons and Property	204,082	141,689	62,393
General Health and Sanitation	10,282	9,282	1,000
Social Services	3,000	3,400	(400)
Roads	356,512	393,495	(36,983)
Debt Service	13,267	11,094	2,173
Capital Projects	151,000	18,600	132,400
Administration	257,220	209,333	47,887
TOTAL BUDGET - GENERAL FUND TYPE	\$ 1,316,406	\$ 1,165,392	\$ 151,014
SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 62,240	\$ 40,970	\$ 21,270
Debt Service	680,000	167,231	512,769
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 742,240	\$ 208,201	\$ 534,039

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Jimmie Herald, Owsley County Judge/Executive

Members of the Owsley County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Owsley County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Owsley County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations section.

- The County Should Earn Interest On Applicable Checking Accounts
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owsley County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Owsley County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations section.

- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
- The County Should Maintain Adequate Inventory Records
- The County's Quarterly Financial Statements Should Be Prepared In Numerical Sequence By Account Number And Account Numbers Should Not Be Duplicated
- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable conditions referred to above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 11, 2002

COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2001

NONCOMPLIANCES:

2001-#01

The County Should Earn Interest On Applicable Checking Accounts

The county is not currently earning interest on all of their checking accounts. According to KRS 66.480 (1), the county may invest or reinvest money subject to its control. It is a prudent financial practice to deposit funds into interest bearing accounts. We recommend that the county comply with this statute by depositing all moneys, except restricted federal monies, into interest bearing checking accounts.

County Judge/Executive Jimmie Herald's Response:

We will make arrangements with the bank to correct this issue.

2001-#02

The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005

The fiscal court did not review the administrative code during the fiscal year as required by statute. KRS 68.005 (2) states that the fiscal court shall review the county administrative code annually during the month of June and may, by a two-thirds majority of the fiscal court, amend the County's administrative code at that time. We recommend compliance with this statute in the future.

County Judge/Executive Jimmie Herald's Response:

We will ensure that the review of the administrative code will be recorded in the Fiscal Court minutes in the future.

REPORTABLE CONDITIONS:

2001-#03

The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government

The purchase order system in place is not sufficient to meet the new DLG (Department for Local Government) requirements for Fiscal Courts. These requirements are stated below and are taken from the DLG Handbook *Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual*.

- A. No purchases shall be made without an approved purchase order.
- B. Purchase orders should be issued by the county judge/executive, or his designee, from only one location.
- C. Blank purchase orders shall not be issued.
- D. All purchase orders shall be accounted for and pre-numbered.

OWSLEY COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Fiscal Year Ended June 30, 2001
 (Continued)

REPORTABLE CONDITIONS: (Continued)

2001-#03

The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government (Continued)

- E. All purchase orders shall indicate the appropriation account number to which the claim will be posted.
- F. No purchase order shall be issued in an amount that exceeds the available line item appropriation.

We recommend that the Fiscal Court adopt the purchasing procedures set forth by the Department for Local Government.

County Judge/Executive Jimmie Herald's Response:

The small size of our government limits our ability to implement a purchase order system in a cost effective manner.

2001-#04

The County Should Properly Account For Encumbrances

The Fiscal Court did not prepare a list of encumbrances for the fiscal year ended June 30, 2001. This is a requirement of the Department for Local Government. The Treasurer should prepare a list of any unpaid purchase orders by fund from the purchase order journal at the close of each quarter. The list should include the purchase order number and the amount. We recommend that the Fiscal Court adopt the purchasing procedures set forth by the Department for Local Government.

County Judge/Executive Jimmie Herald's Response:

This issue is related to our purchase order system problem.

2001-#05

The County Should Maintain Adequate Inventory Records

The County's Inventory records are not adequate. The County maintains inventory records, but they are not in accordance with the guidelines established by the Department for Local Government. The equipment listed did not have model numbers, serial numbers, or the cost or other basis of valuation. The Department for Local Government Handbook *Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual* states that "Adequate fixed asset records provide the information necessary to:

- Report the costs or other basis of valuation,
- Determine the accuracy of insurance coverage,
- Maintain control of county property, and
- Long range planning for property replacement"

OWSLEY COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2001
(Continued)

REPORTABLE CONDITIONS: (Continued)

2001-#05

The County Should Maintain Adequate Inventory Records (Continued)

It further states that the following procedures should be used to achieve the above objectives:

- “Record - The fixed asset record must identify the asset, its cost or other basis of valuation, date acquired, fund charged, location and other information.
- Inventory - An annual inventory of fixed assets must be conducted and compared to the fixed assets records. A master list should be prepared.
- Updating - A fixed asset record should be prepared for each acquisition. The total of the capital outlay accounts for the year should be compared to the total general fixed asset additions. The deletions to general fixed assets (disposal information) should be documented.”

We recommend that the Fiscal Court adopt the procedures and documents set forth by the DLG Handbook *Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual*. Copies of blank forms are provided in the manual for County personnel to use.

County Judge/Executive Jimmie Herald's Response:

We will work toward correcting this issue.

2001-#06

The County's Quarterly Financial Statements Should Be Prepared In Numerical Sequence By Account Number And Account Numbers Should Not Be Duplicated

The expenditure account codes listed on the County's financial statements were not in numerical sequence. In addition, there were also instances where the same account number was listed more than once. This leads to confusion in preparing reports. We recommend that the County Treasurer properly prepare the quarterly financial statements by listing the expenditure account codes in numerical sequence and by not including duplicate account numbers on the financial statements.

County Judge/Executive Jimmie Herald's Response:

We have corrected this issue for the current fiscal year.

OWSLEY COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2001
(Continued)

REPORTABLE CONDITIONS: (Continued)

2001-#07

Lacks Adequate Segregation Of Duties

The Owsley County Fiscal Court has a weakness in their internal controls due to a lack of adequate segregation of duties. To have better internal controls, it is a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals. We recommend that a qualified office employee, independent of check writing and posting duties, match purchase orders to checks and invoices. Also we recommend that the person opening the mail keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. This will help segregate the duties of the County Treasurer and may reduce audit costs in the future. Initialing the purchase orders, and invoices, by this person, and making sure the invoices are marked paid can be shown as evidence of improved segregation of duties.

County Judge/Executive Jimmie Herald's Response:

We have segregated duties as effectively as our financial situation will allow.

PRIOR YEAR FINDINGS

- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
- The County's Quarterly Financial Statements Should Be Accurately Prepared

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

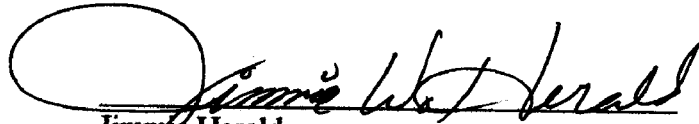
OWSLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2001

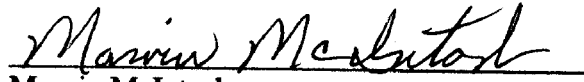
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
OWSLEY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Owsley County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, appearing to read "Jimmie Herald", written over a horizontal line.

Jimmie Herald
County Judge/Executive

A handwritten signature in cursive script, appearing to read "Marvin McIntosh", written over a horizontal line.

Marvin McIntosh
County Treasurer